# TOURISM BUSINESS PLAN GUIDE

Alberta
TOURISM, PARKS
AND RECREATION

93-00309/

# Cautionary Note For Use Of This Document

This guide is designed as an aid to writing a business plan for existing or prospective tourism projects. This guide is not meant to stand on its own as a complete guide to writing a business plan but, rather, is meant to be used in conjunction with consulting sessions provided by the Business Development Branch of Alberta Tourism, Parks and Recreation.

Although the information contained in the guide is, to the best of the knowledge of the Business Development Branch, correct, the Government of Alberta cannot make any representation as to its accuracy or suitability for the purpose for which any person may wish to use it.

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# Introduction

The Business Plan is a tool used by entrepreneurs to logically and systematically plan all aspects of their business. Writing a business plan is an important step in the development of a successful business. There are several reasons why an existing or a prospective tourism operator should take the time, and expend the effort, to prepare a business plan:

- Completing a business plan enables you to determine whether or not your proposed tourism business will be *both feasible and viable*. *To be feasible a project must be possible or workable*. A campground development might be feasible once the land is purchased and the development permits are secured. *To be viable, a project must survive and be self sufficient*. A campground development might not be viable until a specified level of profits, return on investment and/or cash flow are demonstrated.
- Business plans are used by management to monitor progress and identify flaws in the business's operations. You can assess the project's progress by comparing actual results to the projections contained in the business plan. The causes for any variances between projected and actual performance can be identified and immediate action taken to correct the situation.
- Business plans are used when securing additional investment and financing. You should provide potential investors and lenders with a copy of your business plan.

There are ten easy to follow "Action Steps" in the *Tourism Business Plan Guide*. When using this document to complete your business plan, it is important to consider the following:

- Each section of the *Guide* builds on material presented in the previous section. It is recommended, therefore, that you complete each action step in the order presented.
- Each action step begins with a statement of its purpose and some background information, followed by questions designed to lead you through the process of writing a business plan. The results of marketing research studies conducted for similar product experiences and geographical locations should be used in answering these questions.
- A list of information sources can be found in the Appendix to the *Guide*.
- Business planning is undertaken in an environment plagued with uncertainties. General economic conditions, consumer preferences and actions taken by competitors, for example, cannot be predicted with 100 percent accuracy. Educated guesses or assumptions must be made when developing forecasts. Throughout the business plan, the underlying assumptions used in developing forecasts must be outlined for the reader.

The Business Development Branch of Alberta Tourism, Parks and Recreation was founded in 1987 to facilitate increased tourism industry investment and more profitable, self-sustaining tourism businesses. Through regional offices in Calgary and Edmonton, the Branch offers comprehensive tourism business counselling and investor networking to existing as well as potential businesses and entrepreneurs/investors. Whether starting a new project, expanding or restructuring an existing business, the Business and Investment Services units of the Branch can provide counselling assistance in the following:

- location analysis
- market analysis
- establishing financial viability
- break-even analysis
- identifying management needs and their responsibilities
- coordinating government regulation and permit approvals
- infrastructure requirements
- computerized project assistance

In keeping with its goal to fast-track business development, the Branch helps entrepreneurs to locate and contact individuals and organizations who can provide all the necessary information for operating a successful tourism business, including other areas of government. Tourism Business Consultants are an excellent source of additional information on the specific areas covered in the *Guide*. Maintain frequent contact with your Tourism Business Consultant throughout the process of developing your business plan.

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# Presentation Tips

The final draft of your business plan should be organized as follows:

1) *Title Page*
2) *Table of Contents*
3) *Executive Summary*
4) *The Company*
   a) *Goals and Objectives*
   b) *Products and Services*
   c) *Organizational Form and Human Resource Plan*
5) *Industry and Market Analysis*
6) *Project Schedule*
7) *Marketing Plan*
8) *Financial Plan and Projections*
9) *Critical Risks and Assumptions*
10) *Appendices*

Your business plan should be a maximum of thirty to fifty pages in length. Background and supplementary materials should be located in appendices. Appendices may include photographs, site plans, appraisals, permits, resumes of key employees, personal financial statements, organizational charts, market analysis data, letters of intent, legal agreements, etc.

Each section should start on a new page. Use words that are familiar and concrete so that readers can read at their normal pace. Avoid vague or abstract words which are open to interpretation. The style should be direct, brisk and relaxed. Writers who are brief are perceived to be more decisive and confident than those who are verbose.

Ensure that your project is presented in the best possible manner. Be positive: highlight the strong points and downplay the weaker ones. Ignoring weaknesses is not recommended, as this gives the reader the impression that you don't have the capacity to identify shortcomings. Describe the weaknesses and critical risks that you have identified and, immediately afterward, outline the steps that you will take to minimize their effects.

It will take more than one draft to produce a satisfactory product. When reviewing your drafts, edit for the following:

| | |
|---|---|
| *Content* | - Is the document complete and accurate? Are the points adequately developed? Is all non-essential supplementary information included in the appendices? |
| *Organization* | - Are the ideas presented logically? |
| *Style and Tone* | - Is the tone and language used appropriate for a business document? |
| *Mechanics* | - Is the document free of grammar, spelling and punctuation mistakes? |
| *Consistency* | - Is the style consistent throughout?<br>- Is the information presented in the financial section, for example, consistent with that presented in the marketing section? |

Business plans are used when sourcing and securing additional funding from lenders and investors. The presentation of a comprehensive business plan instills a sense of confidence in the lender and/or investor's mind.

Investors, including venture capital companies, will take an equity position in a business offering the potential of a high rate of return at a later point. Investors often insist on being actively involved in the management of the organization. On the other hand, bankers lend money (rather than invest it), are risk adverse, and are primarily concerned with repayment of loans. Bankers rarely become involved in the management of the company.

Understanding how a banker conducts business will assist you in preparing for a loan application. When considering a loan proposal, bankers undertake a risk assessment. In assessing risk, bankers take the following areas into consideration:

1. *Length of time in business*

   Because the majority of small-business failures have traditionally occurred during the first few years of business, bankers consider start-up and young companies to be riskier clients than established firms.

2. *Industry*

   Industries characterized by low profit margins, high bankruptcy rates, intense competition, cyclical and/or seasonal business, and frequent technological changes are perceived to be risky ventures.

3. *Management*

   The depth and experience of the management team, including specific skills required to efficiently and effectively run a successful company, are of prime importance to all lenders.

4. *Equity*

   The level of financial commitment made by the owners is another major component of the banker's risk assessment. Generally, the higher the equity, the lower the risk for the lender.

5. *Collateral*

   The amount and type of security available to the lender is a determinant of risk. Bankers look for both a primary and secondary source of repayment for loans. The primary source of repayment is the cash generated from normal business operations. Secondary sources of repayment would include the sale of fixed assets (such as equipment) or personal resources of the owners and would be relied upon in the event that loans cannot be repaid from the primary source of repayment. In order to secure a secondary source of repayment, bankers require collateral for loans.

Bankers are bound by lending guidelines established by their organizations. However, they do have a considerable degree of flexibility in the terms and conditions of the loans that they approve. Beyond the requirement for security over the assets being financed and, in most cases, a personal guarantee from the owners, all terms and conditions of the loan package are negotiable. Levels of service, specific loan requirements and attitudes towards specific lending situations vary among lending institutions. Investigate the products and services offered by several banks, trust companies and other lending institutions prior to making commitments.

ACTION STEP #1

# CONDUCT INITIAL MARKET RESEARCH

# Action Step #1: Conduct Initial Market Research

The purpose of this step is to establish a clear understanding of the following:

1) your proposed product experience
2) your potential customers
3) your business environment

Consumers make purchases to satisfy needs and wants. Successful businesses design their products to meet these requirements and then describe and market these products as being able to fulfill consumers' needs and wants. A service or facility can be successfully positioned in the marketplace by offering benefits that are important to a particular customer group and yet different from those benefits offered by competitors.

Most consumer purchases are for tangible products (cars, shoes) or specific services (haircuts, medical care). While tourists do purchase products (souvenirs, meals) and services, (transportation, entertainment) their major purchase is that of an ***experience***. Because the tourist's primary motivation is to acquire an experience, you must describe your product, customers and competition in terms of the experience being provided.

Many other enterprises are complementary to the total experience or occasion that a tourist is purchasing. Owners of the local restaurant, campground and museum will have many customers in common. By exchanging ideas and concrete factual information about product experiences and customers, each complementary business owner can gain new insights into the nature of the demand for their product experiences.

Marketing research is the systematic gathering, recording and analyzing of data about problems and opportunities relating to the marketing function. Research is designed to provide ***useful information*** and it can range from a series of short phone calls to hundreds of hours analyzing technical information.

The following five steps should be undertaken when conducting your market research:

**1. Clearly define the problem to be researched and establish the need for information**

Market research costs money. There must be a high probability that the value of the information obtained will justify the costs incurred. The *costs* of research generally increase with both the amount of information gathered and its availability. The ***value*** of research, however, is related only to the proportion of information which is useful in solving the problem at hand.

**2. Determine sources of data**

There are two types of data: primary data and secondary data. Primary data are collected directly from customers, wholesalers, salespeople and/or competitors. Often, much of the data required already exists in an acceptable form and merely has to be located and analyzed. This secondary data may be found in company records (sales reports, advertising expenditures), from competitive and complementary enterprises (historical occupancy rates, special studies) or through outside agencies (Alberta Tourism, consulting firms, academic studies). Because secondary data was collected for a variety of reasons and under a variety of conditions, it must be evaluated for relevance, impartiality, validity and reliability.

**3. Design research strategy and collect data**

Examine all internal company records and exhaust all sources of secondary data prior to conducting primary research. Primary data can be collected using the following three methods:

a) *direct observation*

The actions and responses of customers and competitors can be observed without actually controlling or manipulating their behaviours (e.g. observe customer movements, record sales techniques of competitors).

b) *experimentation*

Selected changes can be introduced into a controlled environment to determine their effects on consumers' or competitors' behaviours (e.g. measure the impact of an ad campaign on sales, record the reactions of competitors to price changes).

c) *surveys*

Survey research involves interviewing a target group, for example potential customers, in order to obtain the desired data. Personal interviews, telephone surveys, mail surveys and panel or focus group interviews are all examples of survey research methods. Normally a questionnaire is used to systematically collect the desired data. Additional information on the design of surveys should be obtained prior to conducting survey research (e.g. post-departure surveys designed to measure customer satisfaction, feedback forms included in newsletters).

**4. Analyze data**

Process and analyze data to generate useful information for decision-making purposes.

**5. Develop conclusions**

Develop conclusions from the analyzed data and use this information to make informed decisions.

## 1.1 Define The Project

a) What are the components of your tourism business (e.g. is it a 70 site campground complete with boat docking facilities, restaurant, mini-golf or an historical museum with no other amenities)?

b) What additional services will you offer (e.g. guided tours, skiing lessons, centralized reservation system)?

c) What other facilities and infrastructure will need to be in place for your project to succeed (local housing for staff, medical and financial services, upgraded access road)?

d) What unique product experience(s) will you provide to the consumer?

## 1.2 Determine Demand

How many? When do they come? Who are they? Where do they come from? What are their needs and wants? What is the nature of the demand for your tourism business?

Not everyone will be your customer. Your product experience will attract only a portion or segment of the total population. Those population or *market segments* that have the greatest potential must be identified and their characteristics well defined. This information will be used to

- project the demand for your product
- develop a marketing strategy to actively target these segments and convince them to become your customers. (When answering the following questions, state the sources used in deriving your estimates, e.g. publications of Alberta Tourism, Parks and Recreation, telephone survey, historical occupancy rates).

***How many? When do they come?***

a) How many tourists travel in the vicinity of your proposed site? What are the seasonal variations in this travel? What changes have there been in these travel patterns over the past few years? What are the projected trends for this travel?

b) How many tourists purchase similar product experiences in other geographical areas? What are the historical and projected trends for these purchases?

***Who are they? Where do they come from?***

Tourists can be described by their geographic, demographic and psychographic characteristics.

| | |
|---|---|
| *Geographic* | - rural or urban; local, regional, national or international; northern, prairie or tropical climates |
| *Demographic* | - age; sex; marital status; family size; income; race; religion; occupation; education; social class |
| *Psychographic* | - adventure seekers; status oriented; potential, regular or non-users; informed or uninformed; price conscious; decision maker; environmentally conscious |

a) What are the historical, current and projected characteristics of tourists currently visiting your area?

b) What are the historical, current and projected characteristics of tourists purchasing similar product experiences? Do these differ from those of tourists that currently visit your area?

***What are their needs and wants?***

a) What experiences are being sought by tourists currently visiting your area? What trends have occurred during recent years and what are the projected trends?

b) What experiences do tourists purchasing similar product experiences want? What are the historical and projected trends? Do these needs and wants differ from those described in a) above?

***What is the nature of the demand for your tourism business?***

a) What are your primary and secondary target markets?

b) What percentage of these market segments can you reasonably expect to attract? How will these change as your business becomes more established?

c) What are the spending patterns of your potential customers? How much do they spend and what do they spend it on? How sensitive are they to price increases or decreases?

d) Will you be able to develop sufficient demand for off seasons or will you scale down or close operations during these periods?

e) What is the demand for your product experience during the first through fifth years of operation? List the assumptions that you have made in making these projections.

f) Is the project feasible or do you need to revise certain aspects of the initial proposal in light of this demand analysis?

## 1.3 Analyze Business Environment and Competition

a) Does the local community support tourism in general and your proposal in particular? How will you secure and maintain support from local residents, businesses and elected officials?

b) Does your proposal fit within existing bylaws and other planning regulations? If not, what is the probability that these regulations can be amended in order for your proposal to proceed?

c) What local, regional or international interest groups will be concerned with your proposal? Are there any potential environmental, legal, human rights or quality of life issues that may be raised in connection with your business? If so, how do you intend to deal with these issues?

d) What other outside influences will effect the viability of your business (e.g. general state of the economy, gas prices, interest rates, taxation levels, consumer preferences, legislation, scarce resources, political factors)?

e) What complementary facilities exist in the immediate area (e.g. hotels, restaurants and service stations would be complementary services to a proposed historical attraction)? What are the capacities of these facilities? Will they be sufficient to serve the volume of tourists that you will be attracting to the area?

f) What is the nature of your competition? Do they have an established reputation in the marketplace? How many are there? What are the features of their product experiences? What are their prices? How do they promote their products? What market segments are they targeting? Are they new ventures or well established businesses? How successful are these competitors?

g) Are there any similar projects planned for the area in the near future?

h) How will you differentiate your product experience from those of your competition? Can you differentiate on the basis of price or product characteristics?

i) What are the distinct advantages and disadvantages of your product versus those of your competition? What assumptions have you used in this analysis?

j) What aspects of your proposed business need to change as a result of this analysis of your business environment and your competition?

After completing your initial market research, do you still feel that your original proposal is feasible? If so, proceed to **Action Step #2: Develop Goals and Objectives.**

ACTION STEP #2

# DEVELOP GOALS AND OBJECTIVES

# Action Step #2: Develop Goals and Objectives

The purpose of this step is to

1) establish realistic, achievable goals and objectives for your tourism business
2) assess the feasibility of your project in relation to stated goals and objectives.

The terms "goals" and "objectives" are often used synonymously. However, there is a subtle difference in meaning. *Goals are long-term, open-ended results which a business seeks to achieve. Objectives are immediate-term targets to be achieved within a specific time frame.* Outlined below are examples of business goals and some of the objectives necessary to achieve them.

| **Goal** | **Objective** |
|---|---|
| *Maximize Profits* | - Increase sales by 10% per annum.<br>- Maintain expenses at 19X1 levels. |
| *Minimize Environmental Impacts* | - Reduce waste by 15% in 19X2 and 5% in 19X3.<br>- Increase use of recycled paper products by next fall. |
| *Increase Customer Satisfaction* | - Reduce staff turnover by 20% this year.<br>- Match competitors price for boat rentals immediately. |

a) What are your business goals and objectives?

b) Are any of these goals and objectives contradictory? Can you maximize profits and minimize environmental impacts at the same time?

c) Are these goals and objectives consistent with your *personal* goals and objectives?

Your goals and objectives should be specific, measurable and realistic. Once you have completed the first draft of your business plan, assess the viability of your project given your stated goals and objectives. Make the following decision:

Should I

1) proceed with the proposal in its present form
2) revise my project in order to achieve my goals and objectives, or
3) abandon the venture, choose another career and invest my savings where they can earn a more acceptable rate of return?

ACTION STEP #3

# DEVELOP AN ORGANIZATIONAL FORM AND HUMAN RESOURCE PLAN

# Action Step #3: Develop An Organizational Form and Human Resource Plan

The purpose of this step is to

1) establish a legal business form or entity for your business
2) establish a Human Resource strategy for your venture.

## 3.1 Develop An Organizational Form

There are several types of business organizations, including the following:

- *sole proprietorships*
- *partnerships*
- *co-operatives*
- *limited companies*
- *not-for-profit organizations*

If you are not familiar with the advantages and disadvantages of these various types of business organizations, you should seek additional information. You may require the assistance of a lawyer or an accountant to determine the entity which best suits your needs.

a) Which organizational form are you considering for your proposed tourism project?

b) What are the advantages and disadvantages of this organizational form?

c) Do you have plans to change your business form as the enterprise grows?

d) What is the ownership structure of your business?

e) Will the business form chosen be acceptable to lenders or investors?

f) What are the costs associated with registering and establishing your business?

## 3.2 Develop A Human Resource Plan

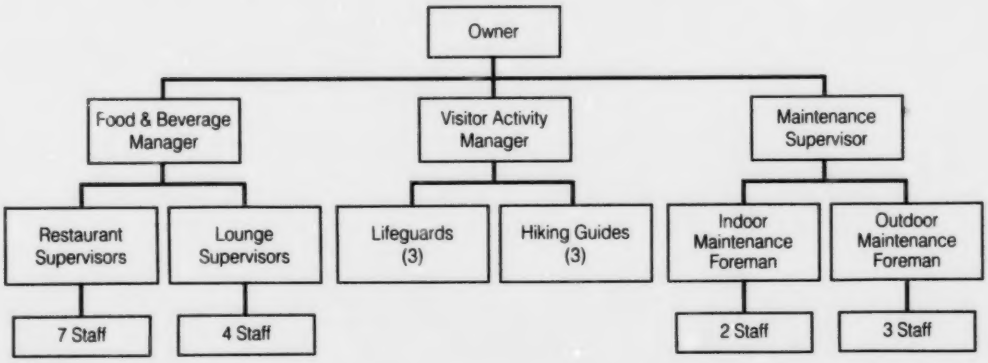
Human resource requirements must be considered in the early stages of writing a business plan. Tourism businesses are service-oriented businesses. Success depends on their ability to provide excellent service. Most tourism enterprises are labour intensive, and, as a result, personnel costs are significant. One of the problems that tourism operators encounter, particularly in rural areas, is a lack of experienced or trainable staff. Attracting, training and retaining quality employees at minimal cost is an ongoing challenge for tourism operators.

A sound human resource plan should include strategies for the following:

### 1. Planning Human Resource Requirements

Planning and forecasting the organization's short-term and long-term needs should be based on the goals and objectives established in **Action Step #2** and be consistent with the project schedule and marketing and financial plans developed in actions steps **#4, #5** and **#6**. Amendments to previous action steps, in light of the analysis conducted in later action steps, is an integral part of the process of writing a business plan.

Organizational charts are used in determining staffing requirements. An example of an organizational chart for a sole proprietorship appears below:




Job descriptions are written statements delineating the tasks, duties, activities and desired outcomes associated with a given job. Many job descriptions include job specifications such as skills, training, or attributes required as well as information about hours of work, salary and other benefits. Job descriptions should be established for each staff and management position. An example of a simple job description appears on the following page.

**Staff Requirements:**

Position _____ Number of Staff Needed in this Position _____

Job Responsibilities: _____

_____

_____

_____

_____

Work and Educational Experience Required:

Work Experience _____

_____

_____

Education Required _____

_____

_____

_____

Hours of Work:

Days _____

Working Hours _____

Number of Hours per Week _____

Salary Range: _____

Benefits: _____

Paid Holidays: _____

Other Time Off Allowed: _____
(e.g. sick time, overtime, etc.)

_____

_____

**2. Staffing The Organization**

Recruitment and selection procedures must be based on job-related standards. All selection criteria used must be demonstrably related to job performance and result in a match between candidate ability and the abilities required by the job. Avoiding discrimination and other violations of laws and regulations is obviously an essential requirement of recruitment and selection procedures.

Orientation and training of new employees are designed to reduce turnover, clarify roles, responsibilities and expectations, and provide an understanding of goals, objectives and values held by both the employee and the organization.

**3. Appraising and Compensating Employees**

Once employees are on the job, it becomes necessary to assess performance and implement compensation policies. If employees are not performing well, it becomes necessary to determine if expectations or the reward structure need to be changed, if training is required or if disciplinary action is needed.

**4. Training and Developing Employees**

Training and development activities range from providing training for specific skills such as bartending to assisting with career planning. Both training and development initiatives are designed to increase the abilities of employees in order to enhance employee performance.

**5. Improving and Analyzing The Organizational Environment**

Analyzing the work environment through observation, interviews, surveys and education is used to improve the physical and sociopsychological work environment and evaluate existing human resource policies and procedures.

A separate section on the background of your management team should be included in your business plan. Highlight those educational and work related achievements ***which relate directly to your existing or proposed tourism business***. Include pertinent information on accountants, lawyers, consultants and other professionals who will be used to supplement management's skills. Detailed resumes and personal financial statements of owners and management may be required by lenders or investors. These should be included in an appendix or provided separately upon request.

Use the following questions in developing your human resource plan:

a) How many staff members do you need in total? How many of these are full-time, part-time, seasonal, supervisors, office staff, etc.? How are these requirements projected to change over the next three years?

b) What are the skills, training and education requirements for each of these positions?

c) What other qualities are required or desired for each position? (e.g. You may determine that required qualities for waitresses and waiters are an outgoing personality, ability to perform well in a fast-paced environment and desire to work directly with the public while your maintenance supervisor requires a mechanical aptitude and strong problem solving skills.)

d) Will the local job market be sufficient for all of your staffing needs? If not, how do you plan to attract personnel from other locations?

e) How will you recruit staff (newspaper ads, family members, college campuses)? What are the costs associated with recruitment?

f) Does the local community have adequate housing, transportation and medical, financial, educational and recreational facilities for your employees (remember to include the needs of family members)? If not, how will you ensure that staff remain employed with you?

g) How will you provide employees with an orientation to the organization's goals, objectives and values as well as their specific roles and responsibilities?

h) How will you evaluate employee performance? How often will employees be evaluated both informally and formally?

i) How will you compensate your employees (salary, hourly wage, profit sharing, bonuses, staff discounts)?

j) What training and development policies will you implement?

k) What career opportunities will you offer your employees?

l) What are the strengths and weaknesses of your staff? What are your own strengths and weaknesses?

m) What outside expertise will you use (e.g. accountants, lawyers, consultants)?

n) What is the annual cost of salaries and other compensation for your employees? What are your costs associated with recruitment, training and development? What salary will you be drawing? What are the total human resource costs?

o) What aspects of your original proposal need to be modified as a result of completing this action step?

After completing your human resource plan, do you still feel that your project is feasible? If so, proceed to **Action Step #4: Develop A Project Schedule.**

ACTION STEP #4

# DEVELOP A PROJECT SCHEDULE

# Action Step #4: Develop A Project Schedule

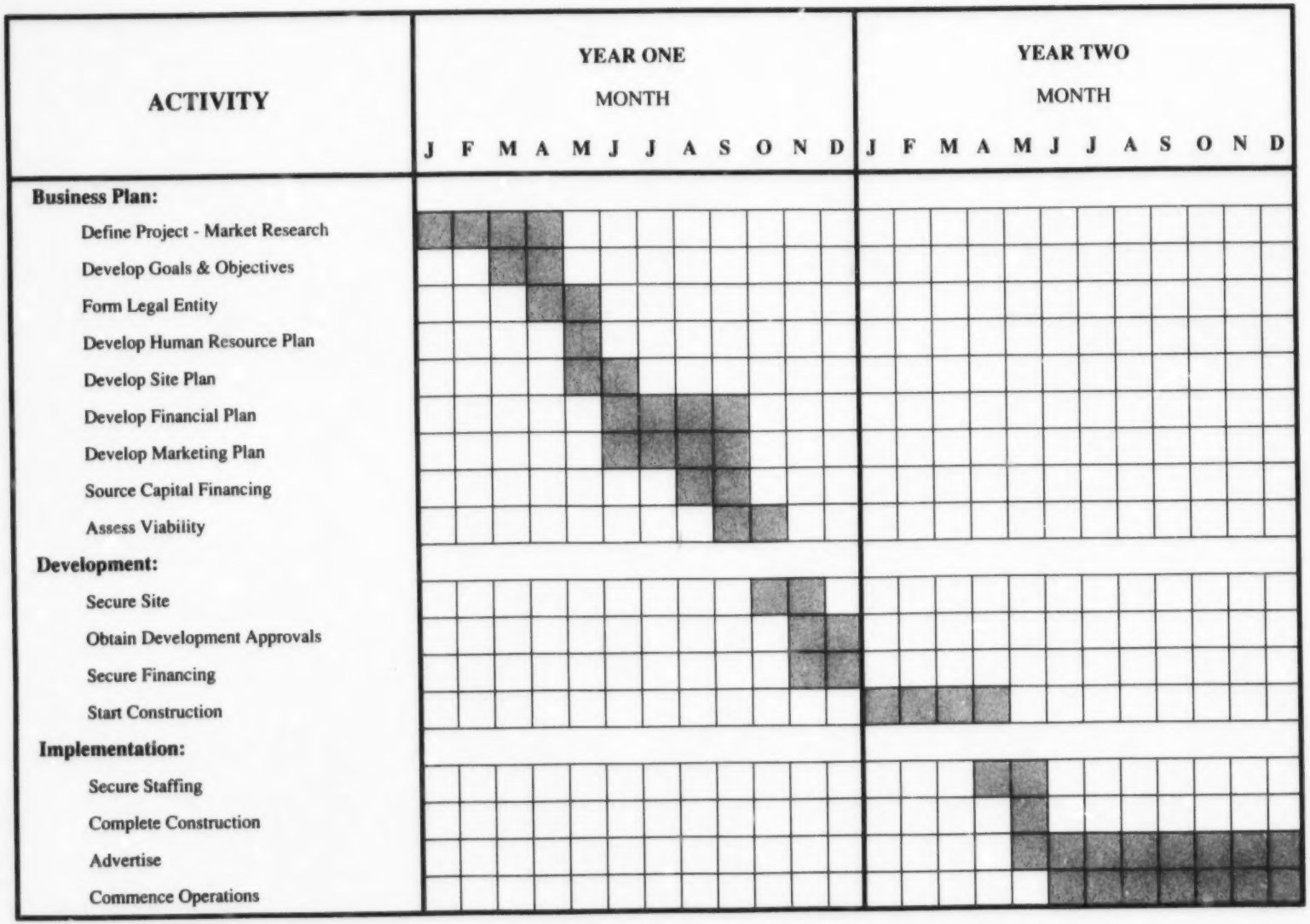
The purpose of this step is to

1) establish a timed plan or project schedule for your proposed tourism business.

Starting a new business is a complex task. It is not enough to simply set the completion and opening dates for your tourism business. Because all components of the project are inter-related, intermediate check points for each stage of development must also be established. Continually monitoring progress will minimize cost overruns and ensure that your project is completed on time.

A continual comparison of progress versus cost versus technical performance is essential to sound control of project operations. A project task may not necessarily be in financial trouble when actual expenditures exceed the budget, because progress may be ahead of schedule.

Gantt charts are a basic planning tool for setting these checkpoints. Each activity or component is assigned a block of time for completion and is monitored within that segment. The start and completion of each activity is time-related to the other functions to be performed. Progress can be monitored easily allowing for quick responses when corrective action is required. An example of a Gantt chart follows on the next page.


ACTIVITY
YEAR ONE
MONTH
J F M A M J J A S O N D
YEAR TWO
MONTH
J F M A M J J A S O N D
Business Plan:
Define Project - Market Research
Develop Goals & Objectives
Form Legal Entity
Develop Human Resource Plan
Develop Site Plan
Develop Financial Plan
Develop Marketing Plan
Source Capital Financing
Assess Viability
Development:
Secure Site
Obtain Development Approvals
Secure Financing
Start Construction
Implementation:
Secure Staffing
Complete Construction
Advertise
Commence Operations

ACTION STEP #5

# DEVELOP A MARKETING PLAN

# Action Step #5: Develop A Marketing Plan

The purpose of this step is to

1) complete a comprehensive marketing plan for your tourism business
2) project the costs associated with your marketing efforts and project sales revenues.

Marketing is often cited as a major factor separating the successful from the unsuccessful business. Successful companies are those that make the customer the focal point for all basic business-planning and decision-making. Objectives should be established and the business operated with the sole purpose of making and selling what the customer wants, in the way they want it, when and where they want it, and at the price that they are willing to pay for it.

A marketing plan or marketing strategy integrates all your great ideas and relates them to the goals and objectives of the company, its strengths and weaknesses, the way in which the customer buys, the nature of the competition and the company's resources.

A marketing plan is designed to provide the following:

a) a set of marketing and financial objectives for a specified time period
b) the marketing activities necessary to meet these objectives
c) a detailed plan of action to put the program into effect
d) contingency or alternative plans in the event that the marketing environment or the firm's resources change
e) procedures for monitoring and evaluating results.

To develop a marketing plan or strategy, follow these steps:

### 1. Select Your Target Markets

In **Action Step #1: Initial Market Research**, you selected your primary and secondary target markets based on your analysis of customer's needs and purchasing behaviour. Ensure that you have selected the appropriate target markets in light of the additional analysis that you have done on the business environment and your competition.

### 2. Establish A Marketing Program

There are four elements of a marketing program: product, price, promotion and place. These are often referred to as the "marketing mix."

*a) Product*

In **Action Step #1: Initial Market Research**, you defined your product in terms of the product experience(s) provided to the consumer. Refinements should now be made to the initial product concept in light of your analysis of customers needs, the business environment, your competition, your goals and objectives, and your human resource plan. Limit the number of products offered to those that can be effectively managed given your financial, marketing, and human resources.

*b*) *Price*

- Pricing methods contribute directly to the success or failure of a business. Price must be set high enough to cover expenses and generate an adequate rate of return, yet low enough to stimulate purchases and prevent competitors from increasing their market share by undercutting your price. There are a variety of pricing methods and strategies that can be used by a tourism business.
- Many consumers fall back on price as the best indicator of quality. Price is easy to determine, and it ties in with the belief that you get what you pay for.
- Different prices can be charged for different market segments (e.g. seniors) and for use of the product at different times (e.g. off season).

*c*) *Promotion*

- To generate more than just walk-in sales, you must develop an effective program of communication and promotion of your product. The selection of promotional forms which will reach the greatest portion of your target markets at the lowest cost is critical. Use the results of your market research to determine which forms of promotion and advertising will effectively reach your target market.
- Many purchases take several months or more from the point where the idea first occurred, to an active search for choices, and even more months before the purchase is made. The timing of your promotional activities should ensure that information about your product reaches potential customers when they are evaluating choices.
- Word-of-mouth advertising is by far the least expensive and most effective promotional tool. Encourage satisfied customers to tell their friends and relatives about your product experience.
- Co-operative promotional efforts involving specific complementary tourism businesses and/or establishment of destination marketing consortia can be very effective. Such ventures benefit from pooling of marketing resources and allow for packaging of tourism product experiences which appeal to specific target markets.

*d*) *Place*

For many tourism businesses, the physical site is an integral part of the product experience being offered to the consumer. Hours and days of operation should relate directly to customer's needs and wants.

Outline contingency plans for your product, price, promotion and place, and establish which plans will be adopted if your goals and objectives are not being met, if your competition significantly alter their marketing strategy or if a measurable change in consumer behaviour is identified.

### 3. Establish Sales Projections

In **Action Step #1: Initial Market Research**, you established the demand for your product experience. Use this information and the prices established in this section to project sales revenue for each of the next three to five years of operation. Projections should be made on a monthly basis and should be completed for each separate product experience. The assumptions used in making these projections should be stated clearly. The results of this step will be used in **Action Step #6: Develop A Financial Plan**.

### 4. Monitor Results

Even sound marketing plans can fail. Poor implementation is one reason for failure. Unforseen events such as changes in consumer preferences, a downturn in the economy, or technological changes can also effect your ability to achieve your marketing goals. You must continually monitor results against established goals and objectives.

Determine how you are going to monitor marketing activities before you open for business. One of the best sources of information are your customers themselves. Ask them what they liked, what they didn't like and what additional services or products they wish to see added to your tourism business. Answers to these questions will allow you to assess the product, price, and place of your marketing plan. By asking your customers how they came to hear of your tourism business (e.g. brochure, T.V. ad, friends, etc.), you can begin an evaluation of the effectiveness of your promotional tools.

By encouraging feedback from your customers, you will learn more about their needs and wants. This knowledge will assist you in developing a better product experience. Keep track of these responses and compare them to your marketing goals. You should also compare the results of your marketing efforts to the costs incurred.

### 5. Take Corrective Action

To remain competitive, you must implement contingency plans immediately if desired results are not being met.

To remain competitive over the long term, you should incorporate marketing research as an integral part of your marketing plan. Marketing research is designed to solve or forestall marketing problems, thereby increasing the efficiency and effectiveness of your business. Marketing research can be used to help identify a new market for an existing product experience, help develop or improve product characteristics, determine unique/important characteristics of specific target markets, help decide how a product experience should be presented to potential customers (positioning), reveal the attributes and characteristics of a product experience that appeal most to your customers, analyze the effectiveness of a consortium advertising campaign, assess the reputation or image of your company

and its product experiences, determine the impact of a change in pricing strategy, and predict the impact of a new competitor entering the market place.

Answer the following questions prior to completing your marketing plan:

a) What are your primary and secondary target markets?

b) What product experiences will you be offering?

c) How will you differentiate your product from those of your competitors?

d) What are the elements of your pricing strategy?

e) Which promotional tools will you use in marketing your product? In what joint marketing efforts will you engage?

f) Where will your product experience be located? What hours and days will you be open?

g) What are your sales projections? What assumptions have you used in making these projections?

h) How will you monitor marketing results?

i) What are your contingency plans?

j) What on-going marketing research activities will you undertake?

k) What are your annual marketing costs?

l) Who will be responsible for the marketing function?

m) What aspects of your proposed business need to be changed as a result of the development of your marketing plan?

n) What are the strengths and weaknesses of your marketing plan?

o) What are the strengths and weaknesses of your competition?

After completing your marketing plan, do you still feel that your project is feasible? If so, proceed to **Action Step #6: Develop A Financial Plan**.

ACTION STEP #6

# DEVELOP A FINANCIAL PLAN

# Action Step #6: Develop A Financial Plan

The purpose of this step is to

1) establish financial projections for the construction and operating phases of your project
2) establish a financial plan for your tourism business.

A common reason cited for the high failure rate experienced by new ventures is a lack of financial expertise. You should develop a working understanding of financial management techniques including financial planning, projections, analysis and monitoring and evaluation, prior to making commitments. You should also employ the services of a qualified accountant and/or other financial experts to supplement your knowledge.

The basic purpose of financial planning is to ensure that the business's resources are used wisely. A financial plan should include the following:

1) a set of financial goals and objectives for a specified time frame
2) financial projections prepared separately for the construction/start up phase and the operating phase
3) a plan of action to accomplish these goals and objectives
4) contingency or alternative plans
5) procedures for monitoring and evaluating results

## 6.1 Develop Financial Projections

Prior to describing the process of developing a Financial Plan, some background information on the nature and types of financial projections is required.

*Projections are an approximation or model of the future based on a set of hypotheses or assumptions*. Establishing sound hypotheses or assumptions is critical. There are two approaches to establishing these assumptions: The first is a straight-line approach which assumes a flat increase of a certain percentage each year in expenses and revenues. This approach is simplistic in that it assumes that history repeats itself. It is useful only when the company's activities remain relatively constant from year to year. For new ventures, business activities change dramatically during the first few years. The second approach is based on different scenarios of future events and is more applicable for new companies because expansion plans and the results of previous marketing activities, for example, can be taken into consideration.

Projections should be completed for the three types of financial statements–Income Statement, Cash Flow Statement and Balance Sheet. For the capital development or construction and start up phase of operations, a summary of the source and use of funds should also be developed. A brief description of each of these statements is provided .

### 1. Summary of Construction/Start Up Costs and Sources of Funds

Construction and start up costs and sources of funding, in terms of both dollar amounts and timing, are determined and recorded. A contingency figure of 10-15 percent of construction costs is included to cover cost overruns. Potential sources of funding should be investigated early on in the processes by making contact with lenders and investors with the view to determining the feasibility of eventually securing required funds.

### 2. Income Statement

The income statement is a presentation of the revenues and expenses incurred by the business during a given period. The Income Statement uses accrual accounting where 1) revenues are recorded at the time that the sale is made even though payment of cash for these sales may occur earlier or later and; 2) expenses are recorded at the time that their corresponding revenue was recorded regardless of when the actual outlay of cash was made.

Revenues and expenses are projected based on the results of previous action steps. Income, expenses and profits are categorized on the income statement as follows:

| | |
|---|---|
| *Operating Income*: | Income generated from the sale of the company's product or service. |
| *Other Income*: | Income earned from other activities (e.g. interest earned on bank deposits). |
| *Cost of Goods Sold*: | Expenses directly related to the production of goods and services including purchases of materials, freight and labour. |
| *Gross Profit*: | Revenue minus *Cost of Goods Sold*. |
| *Operating Expenses*: | All selling, administrative and depreciation expenses. |
| *Operating Profit*: | *Gross Profit* less *Operating Expenses*. |
| *Interest Expense*: | Expenses resulting from debt financing. |
| *Net Profit Before Tax*: | *Operating Profit* less *Interest Expense*. |

### 3. Cash Flow Statement

The cash flow statement records actual timing of cash receipts and disbursements. It is not based on accrual accounting methods and does not include non-cash items such as depreciation or amortization. The cash flow statement is the most important forecast for a new business because it demonstrates whether or not you have the actual cash on hand required to meet your financial obligations when they come due.

Cash receipts are cash inflow from cash sales, collections of accounts receivable, loan proceeds, owner's contributions and sales of fixed assets. Cash disbursements are cash outflows for operating expenses, payments to suppliers, repayment of loans

and the acquisition of fixed assets. Cash on hand at the beginning of the period plus total cash receipts less total cash disbursements equals cash on hand at the end of the period.

Not all sales are collected in the month in which they are made, and not all expenses are paid for in the month that they are incurred.

A hotel, for example, may collect cash for sales

1) in advance by requiring a deposit when the reservation is made
2) when the sale is actually made to the consumer
3) after the sale is made through invoicing the business traveller's employer.

A hotel's linen supplies may be

1) prepaid in full, in advance
2) paid for in equal monthly instalments
3) paid for within 60 days of receiving an invoice.

Extended payment terms granted to consumers and by suppliers must be built into the cash flow projections.

**4. Balance Sheet**

The balance sheet is a snapshot of the financial condition of the business at a fixed point in time. It shows what the firm owns (assets) and what it owes (liabilities and owner's equity). The *balance sheet has three major sections*: *assets* - listed on the left hand side; *liabilities* - listed on the right hand side; and *equities* - also listed on the right hand side. Assets represent the total resources of the firm stated in dollar terms. Claims against these assets are the liabilities and equity. The two sides of the balance sheet *equal* each other–they balance. The excess of assets over liabilities represents the net worth of the firm's owners.

Assets are listed in order of liquidity, or nearness to cash. Thus, cash, being the most liquid asset, is listed first, followed by other "current assets." Current assets are assets which will be turned into cash within one year and include cash, marketable securities, inventory, accounts receivable and prepaid expenses. Long term or fixed assets are those which are not intended for conversion into cash within one year. Fixed assets include land, buildings, equipment, furnishings and long term investments.

Liabilities are also classified as being either current (due within one year) or long term. Current liabilities include accounts payable, accrued wages and current portion of long term debt. Current liabilities are recorded first, followed by long term liabilities.

Examples of these financial statements follow on the next four pages.

## SUMMARY OF CONSTRUCTION/START UP COSTS

| | AMOUNT | TIMING | SOURCE |
|---|---|---|---|
| **CONSTRUCTION COSTS:** | | | |
| Land | $ | | |
| Land Improvements | $ | | |
| Utility Servicing | $ | | |
| Buildings | $ | | |
| Marina | $ | | |
| Equipment | $ | | |
| Furniture and Fixtures | $ | | |
| Vehicles | $ | | |
| Licences and Permits | $ | | |
| Professional and Consulting Fees | $ | | |
| Contingency | $ _____ | | |
| **Total Construction Costs** | $ | | |
| **START UP COSTS:** | | | |
| Pre-opening Market Costs | $ | | |
| Pre-opening Human Resource Costs | $ | | |
| Pre-opening Operating Expenses (rent, insurance, utilities, etc.) | $ | | |
| Office Supplies | $ | | |
| Other Start Up Costs | $ _____ | | |
| **Total Start Up Costs** | $ | | |
| **TOTAL CONSTRUCTION AND START UP COSTS** | $ | | |

## PROFORMA MONTLY INCOME STATEMENT
('000 omitted)

| Month | J | F | M | A | M | J | J | A | S | O | N | D | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Sales | | | | | | | | | | | | | |
| Cost of Goods Sold | | | | | | | | | | | | | |
| GROSS PROFIT | | | | | | | | | | | | | |
| Operating Expenses: | | | | | | | | | | | | | |
| Rent | | | | | | | | | | | | | |
| Salaries & Benefits | | | | | | | | | | | | | |
| Owners Salaries | | | | | | | | | | | | | |
| Marketing | | | | | | | | | | | | | |
| Office Supplies | | | | | | | | | | | | | |
| Insurance | | | | | | | | | | | | | |
| Bank Charges | | | | | | | | | | | | | |
| Depreciation | | | | | | | | | | | | | |
| Property Taxes | | | | | | | | | | | | | |
| Professional Fees | | | | | | | | | | | | | |
| Repairs/Maintenance | | | | | | | | | | | | | |
| Vehicles | | | | | | | | | | | | | |
| Travel | | | | | | | | | | | | | |
| Utilities | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | |
| Total Operating Expenses | | | | | | | | | | | | | |
| OPERATING PROFIT | | | | | | | | | | | | | |
| Interest Income | | | | | | | | | | | | | |
| Interest Expense | | | | | | | | | | | | | |
| PRE-TAX PROFIT | | | | | | | | | | | | | |
| Income Taxes | | | | | | | | | | | | | |
| NET PROFIT (LOSS) | | | | | | | | | | | | | |

# PROFORMA
# MONTHLY CASH FLOW STATEMENT
## ('000 omitted)

| Month | J | F | M | A | M | J | J | A | S | O | N | D | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OPENING CASH BALANCE (A) | | | | | | | | | | | | | |
| Cash Receipts: | | | | | | | | | | | | | |
| Owners Contribution | | | | | | | | | | | | | |
| Vehicle Loan Proceeds | | | | | | | | | | | | | |
| Term Loan Proceeds | | | | | | | | | | | | | |
| Interest Revenue | | | | | | | | | | | | | |
| TOTAL CASH RECEIPTS (B) | | | | | | | | | | | | | |
| Cash Disbursements: | | | | | | | | | | | | | |
| Land | | | | | | | | | | | | | |
| Land Improvements | | | | | | | | | | | | | |
| Building Construction | | | | | | | | | | | | | |
| Equipment & Vehicles | | | | | | | | | | | | | |
| Furniture & Fixtures | | | | | | | | | | | | | |
| Licences & Permits | | | | | | | | | | | | | |
| Professional/Consulting | | | | | | | | | | | | | |
| Contingency | | | | | | | | | | | | | |
| Term Loan - Interest | | | | | | | | | | | | | |
| Vehicle Loan - Principal | | | | | | | | | | | | | |
| Vehicle Loan - Interest | | | | | | | | | | | | | |
| Inventory | | | | | | | | | | | | | |
| Marketing | | | | | | | | | | | | | |
| Human Resources | | | | | | | | | | | | | |
| Management Salaries | | | | | | | | | | | | | |
| Office Supplies | | | | | | | | | | | | | |
| Bank Charges | | | | | | | | | | | | | |
| Insurance | | | | | | | | | | | | | |
| Utilities | | | | | | | | | | | | | |
| Property Taxes | | | | | | | | | | | | | |
| TOTAL CASH DISBURSEMENTS (C) | | | | | | | | | | | | | |
| **ENDING CASH (A+B-C)** | | | | | | | | | | | | | |

## PROFORMA BALANCE SHEET

| | | | |
|---|---|---|---|
| **Current Assets:** | | **Current Liabilities:** | |
| Cash | $ | Accounts Payable | $ |
| Marketable Securities | $ | Current Portion Long Term Debt | $ |
| Inventory | $ | **Total Current Liabilities** | $ |
| Other Current Assets | $ | | |
| **Total Current Assets** | $ | **Long Term Liabilities:** | |
| | | Mortgage | $ |
| **Fixed Assets:** | | Long Term Debt | $ |
| Land | $ | **Total Long Term Liabilities** | $ |
| Land Improvements | $ | | |
| Building | $ | **Owner's Equity:** | |
| Equipment | $ | Shareholders Loans | $ |
| Vehicles | $ | Share Capital | $ |
| Furniture & Fixtures | $ | Retained Earnings | $ |
| Other Fixed Assets | $ | **Total Owner's Equity** | $ |
| **Total Fixed Assets** | $ | | |
| Less Depreciation | $ | | |
| **Net Fixed Assets** | $ | | |
| **TOTAL ASSETS** | $ | **TOTAL LIABILITIES & OWNER'S EQUITY** | $ |

To illustrate the process, financial projections will be developed for a new campground development. Details of the project are as follows:

- 100-site destination campground complete with laundry facilities, boat dock, camp store, showers, flush toilets and a complete range of outdoor and indoor recreational activities.
- Located adjacent to a major tourist attraction, within 1½ hour drive of a large urban centre.
- 60 sites serviced in the first year, and an additional 20 sites will be serviced in the second year.
- Construction and start up costs have been projected based on firm quotes.
- A $325,000 Term Loan at 12% amortized over 25 years, five-year term, has been approved in principal.
- A $43,000 vehicle and equipment loan at 12% over five years has been approved in principal.
- Owners will contribute $435,000 in cash during the construction and start up phase from the sale of existing business ($380,000) and cash deposits ($55,000). $434,900 of the owner's contribution is loaned to the company by way of a non-interest-bearing shareholders loan with no fixed terms of repayment. This sum is formally postponed to the bank and is thus classified as equity on the balance sheet.
- Marketing, human resources and operating expenses have been projected for three different scenarios for the construction and operating phases.
- Opening date is scheduled for June 1, 19X1.
- The proposed campground does not conflict with any existing land use planning documents and no environmental or historical resource impact assessments are required.

Based on this information, the following are projected:

1. Construction and Start Up Costs and Sources of Funding.
2. Monthly Income Statement - Construction and Start Up Phase.
3. Monthly Cash Flow Statement - Construction and Start Up Phase.
4. Proforma Opening Balance Sheet.

**NOTE:** The effects of taxes, with the exception of property taxes, have been excluded from these financial statements. Tax planning issues are important considerations and you should endeavour to seek additional information or advice prior to undertaking major commitments.

## SUMMARY OF CONSTRUCTION/START UP COSTS

| | AMOUNT | TIMING | SOURCE |
|---|---|---|---|
| **CONSTRUCTION COSTS:** | | | |
| Land | $78,000 | 10% May 31, 19X0, Balance Nov 15, 19X0 | $50,000 Term Loan , $28,000 Cash |
| Land Improvements | $182,000 | 25% end Feb, Mar, Apr, May 19X1 | $95,000 Term Loan, $87,000 Cash |
| Utility Servicing | $58,481 | 50% Apr 30, 50% May 31, 19X1 | $13,000 Term Loan, $45,481 Cash |
| Buildings | $171,356 | $15,000 Jan, $23,000 Feb, $52,000 Mar, $65,000 Apr, $16,356 May, 19X1 | $131,000 Term Loan, $4,356 Cash |
| Marina | $37,159 | $7,459 May, $29,159 Apr, 19X1 | $26,000 Term Loan, $11, 159 Cash |
| Equipment | $34,820 | Apr 19X1 | $24,500 Bank Loan, $10, 320 Cash |
| Furniture & Fixtures | $5,100 | $2,100 Apr, $3,000 May 19X1 | Cash |
| Vehicles | $26,200 | $10,000 Feb, $16,200 Apr, 19X1 | $18,500 Bank Loan, $7,700 Cash |
| Licences & Permits | $900 | Dec 19X0 | Cash |
| Professional and Consulting Fees | $3,600 | $2,000 Jun, $1,000 Sept, $600 Nov, 19X0 | Cash |
| Contingency | $77,658 | | Cash |
| **Total Construction Costs** | $675,274 | | |
| **START UP COSTS:** | | | |
| Pre-opening Marketing Costs | $2,850 | Jan 19X1 | Cash |
| Pre-opening Human Resource Costs | $14,400 | Approximately $3,000/month Jan - May, 19X1 | Cash |
| Management Salaries | $4,100 | $2,000 Apr, $3,000 May, 19X1 | Cash |
| Office Supplies | $1,300 | May 19X1 | Cash |
| Utilities | $3,700 | $1,800 Apr, $1,900 May, 19X1 | Cash |
| Inventory | $1,600 | $1,600 May, 19X1 | Cash |
| Property Taxes | $6,600 | May, 19X1 | Cash |
| Insurance | $1,520 | May, 19X0 | Cash |
| Pre-paid Insurance | $3,100 | May, 19X1 | Cash |
| Financing Costs | $15,486 | $6,500 Oct, $100 Nov to Feb, $1,100 Mar, $3,000 Apr, $3,450 May 19X1 | Cash |
| **Total Start Up Costs** | $54,656 | | |
| **TOTAL CONSTRUCTION/START UP COSTS** | $729,930 | | |

Notes to the Summary of Construction/Start Up Costs and Sources of Funding:

1) Construction and start up costs have been projected based on firm quotes when available and supplemented through discussions with the trade.

2) A 12-month option to purchase on the land is currently being negotiated.

3) A $325,000 term loan at 12% amortized over 25 years, five-year term, has been approved in principle.

4) A $43,000 vehicle and equipment loan at 12% over five years has been approved in principle.

5) Owners contribution of $435,000 will be available during the construction and start up phase, as outlined in the cash flow projection.

The monthly income statement and monthly cash flow statement are projected next. Because the income statement is based on accrual accounting while the cash flow statement records actual timing of cash receipts and disbursements, you will notice the following differences between these two statements.

1. Prepaid Insurance: In this example annual insurance payments are prepaid.
   - On the income statement, insurance is recorded in equal monthly amounts.
   - On the cash flow statement, insurance is recorded in the actual month in which payment is made.
2. Depreciation, a non-cash item, appears on the income statement only.
3. Inventory totalling $4,200 is purchased in May 19X1. Payment terms are $1,600 on delivery and $2,600 by June 30, 19X1. Inventory payment of $1,600 is recorded on the cash flow statement in May 19X1. The balance of $2,600 is recorded as accounts payable on the balance sheet.

The final statement to complete is a balance sheet as at opening day, June 1, 19X1. It is not necessary to develop monthly balance sheets for the construction/start up phase. The balance sheet is also based on accrual accounting. Keep the following points in mind when projecting a balance sheet:

- Fixed assets are recorded at cost
- Net fixed assets = fixed assets - accumulated depreciation
- Total assets = liabilities + owner's equity

## MONTHLY INCOME STATEMENT
## CONSTRUCTION/START UP
## May 1, 19X0 to May 31, 19X1

| Month | M | J | J | A | S | O | N | D | J | F | M | A | M | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | | | | | | | | | | | | | | 0.00 |
| Cost of Goods Sold | | | | | | | | | | | | | | 0.00 |
| GROSS PROFIT | | | | | | | | | | | | | | 0.00 |
| Operating Expenses: | | | | | | | | | | | | | | |
| Salaries & Benefits | | | | | | | | | 2.90 | 3.10 | 3.10 | 2.90 | 2.40 | 14.40 |
| Owner's Salaries | | | | | | | | | | | | 2.00 | 2.10 | 4.10 |
| Marketing | | | | | | | | | 2.90 | | | | | 2.90 |
| Office Supplies | | | | | | | | | | | | | 1.30 | 1.30 |
| Insurance | | | | | | | 0.25 | 0.26 | 0.25 | 0.25 | 0.26 | 0.25 | 0.26 | 1.78 |
| Bank Charges | | | | | | 6.50 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 7.20 |
| Depreciation | | | | | | | | | | | | | 4.80 | 4.80 |
| Utilities | | | | | | | | | | | | 1.80 | 1.90 | 3.70 |
| Property Taxes | | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 6.60 |
| Licences & Permits | | | | | | | | 0.90 | | | | | | 0.90 |
| Professional Fees | | 2.00 | | | 1.00 | | 0.60 | | | | | | | 3.60 |
| Total Expenses | | 2.55 | 0.55 | 0.55 | 1.55 | 7.05 | 1.50 | 1.81 | 6.70 | 4.00 | 4.01 | 7.60 | 13.41 | 51.28 |
| OPERATING PROFIT | | -2.55 | -0.55 | -0.55 | -1.55 | -7.05 | -1.50 | -1.81 | -6.70 | -4.00 | -4.01 | -7.60 | -13.41 | -51.28 |
| Interest Income | | 0.34 | 0.33 | 0.34 | 0.34 | 0.33 | 0.28 | 0.42 | 0.42 | 0.42 | 0.50 | 0.33 | 0.39 | 4.44 |
| Interest Expense | | | | | | | | | | | 1.00 | 2.20 | 3.65 | 6.85 |
| PRE-TAX PROFIT | 0.00 | -2.21 | -0.22 | -0.21 | -1.21 | -6.72 | -1.22 | -1.39 | -6.28 | -3.58 | -4.51 | -9.47 | -16.67 | -53.69 |
| Income Taxes | | | | | | | | | | | | | | |
| NET PROFIT (LOSS) | 0.00 | -2.21 | -0.22 | -0.21 | -1.21 | -6.72 | -1.22 | -1.39 | -6.28 | -3.58 | -4.51 | -9.47 | -16.67 | -53.69 |

# MONTHLY CASH FLOW STATEMENT
## CONSTRUCTION/START UP
## ('000 omitted)
## May 1, 19X0 to May 31, 19X1

| Month | M | J | J | A | S | O | N | D | J | F | M | A | M | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OPENING CASH BALANCE | 0.00 | 51.10 | 49.44 | 49.77 | 50.11 | 49.45 | 43.28 | 61.94 | 61.26 | 63.68 | 82.20 | 49.60 | 57.03 | |
| Cash Receipts: | | | | | | | | | | | | | | |
| Owner's Contribution | 60.00 | | | | | | 100.00 | | 25.00 | 100.00 | | 150.00 | | 435.00 |
| Vehicle Loan Proceeds | | | | | | | | | | | | 43.00 | | 43.00 |
| Term Loan Proceeds | | | | | | | | | | | 100.00 | 75.00 | 150.00 | 325.00 |
| Interest Revenue | | 0.34 | 0.33 | 0.34 | 0.34 | 0.33 | 0.28 | 0.42 | 0.42 | 0.42 | 0.50 | 0.33 | 0.39 | 4.44 |
| TOTAL CASH RECEIPTS (B) | 60.00 | 0.34 | 0.33 | 0.34 | 0.34 | 0.33 | 100.28 | 0.42 | 25.42 | 100.42 | 100.50 | 268.33 | 150.39 | 807.44 |
| Cash Disbursements: | | | | | | | | | | | | | | |
| Land | 7.80 | | | | | | 70.20 | | | | | | | 78.00 |
| Utility Servicing | | | | | | | | | | | | 29.00 | 29.50 | 58.50 |
| Land Improvements | | | | | | | | | | 45.50 | 45.50 | 45.50 | 45.50 | 182.00 |
| Building Construction | | | | | | | | | 15.00 | 23.00 | 52.00 | 65.00 | 16.40 | 171.40 |
| Marina | | | | | | | | | | | 7.50 | 29.70 | | 37.20 |
| Equipment & Vehicles | | | | | | | | | | | 10.00 | 51.00 | | 61.00 |
| Furniture & Fixtures | | | | | | | | | | | | 2.10 | 3.00 | 5.10 |
| Licences & Permtis | | | | | | | | 0.90 | | | | | | 0.90 |
| Professional/Consulting | | 2.00 | | | 1.00 | | 0.60 | | | | | | | 3.60 |
| Contingency | 1.10 | | | | | | 9.20 | 0.10 | 2.10 | 10.20 | 13.90 | 28.90 | 12.20 | 77.70 |
| Term Loan - Interest | | | | | | | | | | | 1.00 | 1.80 | 3.20 | 6.00 |
| Vehicle Loan - Principal | | | | | | | | | | | | 0.70 | 0.70 | 1.40 |
| Vehicle Loan - Interest | | | | | | | | | | | | 0.40 | 0.45 | 0.85 |
| Inventory | | | | | | | | | | | | | 1.60 | 1.60 |
| Marketing | | | | | | | | | 2.90 | | | | | 2.90 |
| Human Resources | | | | | | | | | 2.90 | 3.10 | 3.10 | 2.90 | 2.40 | 14.40 |
| Management Salaries | | | | | | | | | | | | 2.00 | 2.10 | 4.10 |
| Office Supplies | | | | | | | | | | | | | 1.30 | 1.30 |
| Bank Charges | | | | | | 6.50 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 7.20 |
| Insurance | | | | | | | 1.52 | | | | | | 3.10 | 4.62 |
| Utilities | | | | | | | | | | | | 1.80 | 1.90 | 3.70 |
| Property Taxes | | | | | | | | | | | | | 6.60 | 6.60 |
| TOTAL CASH DISBURSEMENT | 8.90 | 2.00 | 0.00 | 0.00 | 1.00 | 6.50 | 81.62 | 1.10 | 23.00 | 81.90 | 133.10 | 260.90 | 130.05 | 730.07 |
| **ENDING CASH (A+B-C)** | **51.10** | **49.44** | **49.77** | **50.11** | **49.45** | **43.28** | **61.94** | **61.26** | **63.68** | **82.20** | **49.60** | **57.03** | **77.37** | **77.37** |

## PROFORMA BALANCE SHEET
## JUNE 1, 19X1

| | |
|---|---|
| **Current Assets:** | |
| Cash | $2,366 |
| Marketable Securities | $75,000 |
| Inventory | $4,200 |
| Prepaid Expenses | $3,100 |
| **Total Current Assets** | $84,666 |
| **Fixed Assets:** | |
| Land | $78,000 |
| Land Improvements | $182,000 |
| Utility Servicing | $58,481 |
| Building | $171,356 |
| Marina | $37,159 |
| Equipment | $34,820 |
| Vehicles | $26,200 |
| Furniture & Fixtures | $5,100 |
| Contingency | $77,658 |
| **Total Fixed Assets** | $670,774 |
| Less Depreciation | ($4,848) |
| **Net Fixed Assets** | $665,926 |
| **TOTAL ASSETS** | **$750,592** |

| | |
|---|---|
| **Current Liabilities:** | |
| Accounts Payable | $2,710 |
| Current Portion Vehicle/Equipment Loan | $8,600 |
| Current Portion Term Loan | $13,000 |
| **Total Current Liabilities** | $24,310 |
| **Long Term Liabilities:** | |
| Vehicle/Equipment Loan | $32,967 |
| Term Loan | $312,000 |
| **Total Long Term Liabilities** | $344,967 |
| **Owner's Equity:** | |
| Shareholders Loans | $434,900 |
| Share Capital | $100 |
| Retained Earnings | ($53,685) |
| **Total Owner's Equity** | $381,315 |
| **TOTAL LIABILITIES & OWNER'S EQUITY** | **$750,592** |

A set of financial projections, complete with explanatory notes, have been completed for the construction/start-up phase of our campground development. These projections have been established based on a certain set of assumptions which must be outlined for the reader:

1) Long term financing will be arranged in the amount of $325,000 at 12% amortized over 25 years, five year term, secured by a first fixed and floating charge over all company assets.

2) Vehicle/equipment financing will be arranged in the amount of $43,000 repayable over five years at 12%, secured by a fixed charge over equipment.

3) Financing will be arranged by September 30, 19X1.

4) Construction will commence November 1, 19X0 with a completion date of April 30, 19X1.

5) Staff will be hired and trained by May 1, 19X1.

These assumptions appear to be reasonable. However, as the foregoing are by no means certain events, alternative sets of projections should be developed based on different sets of assumptions. It is particularly important to develop different scenarios for operating phase projections because of the magnitude of events which can influence the company's performance. Some of these events include changes in consumer preferences, interest rates, competitor's behaviour and environmental or other regulations.

In addition to the five assumptions used in the preceding projections, operating phase financial projections are based on the following assumptions:

1) Inflation will average 5.2% per annum for the next three years (source: Conference Board of Canada).

2) The Alberta economy will remain stable during 19X0; GPP will increase by 2.0% in 19X1 and 19X2 and by 2.5% in 19X3 and 19X4 (source: Alberta Bureau of Statistics).

3) Attendance at the new major tourist attraction adjacent to this proposal will increase by 20% in 19X0, 17% in 19X1 through 19X3, and 5% in 19X4 (source: Major Tourist Attraction study).

4) Above average per capita expenditures by Albertans on camping will continue for the duration of this plan (source: Campground Study).

5) Aggressive, joint marketing efforts with the new Major Tourist Attraction, local Chamber of Commerce and regional fairgrounds will attract out-of-province campers. Percentage of revenue generated from out-of-province campers projected to increase by 8% per annum (source: in-house marketing research).

6) No new environmental, legal or human rights legislation will be passed during the time frame of these projections (source: discussions with Chamber of Commerce and Alberta Tourism, Parks and Recreation).

7) Revenue generated from laundry facilities and grocery/souvenir store will be 25% of total site rental revenue. Bicycle and boat rentals will be 45% of total site rental revenue during peak seasons (source: Campground Study, discussions with Campground Owner's Association).

8) Day lodge/picnic site rental will be $50 per day, 2 days per week May 15 through September 15 annually (source: discussions with Campground Owner's Association).

9) Site rental revenue projections are based on the following:

   a) Full-service site rental $16.50; unserviced rental $8.00.

   b) 65% occupancy during peak season: June 20 through September 7; 35% occupancy during shoulder season: May 20 through June 19 and September 8 through September 20; 10% occupancy during winter season: 48 days.

   c) Cost of goods sold calculated at 30% of revenue.
   (source: Campground Study, Campground Owner's Association)

## MONTHLY INCOME STATEMENT
## ('000 omitted)
## June 1, 19X1 to May 31, 19X2

| Month | J | J | A | S | O | N | D | J | F | M | A | M | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales: | | | | | | | | | | | | | |
| Site Rental | 18.30 | 26.40 | 26.40 | 17.80 | | | 1.50 | 1.60 | 1.60 | 1.60 | | 25.10 | 120.30 |
| Store/Laundry | 4.50 | 6.60 | 6.60 | 1.30 | | | | | | | | 6.20 | 25.20 |
| Bicycle/Boat Rental | 2.10 | 8.70 | 8.70 | 1.90 | | | | | | | | | 21.40 |
| Lodge Rental | 0.40 | 0.40 | 0.40 | 0.10 | | | 0.10 | 0.10 | 0.10 | 0.10 | | 0.20 | 1.90 |
| Total Sales | 25.30 | 42.10 | 42.10 | 21.10 | 0.00 | 0.00 | 1.60 | 1.70 | 1.70 | 1.70 | 0.00 | 31.50 | 168.80 |
| Cost of Goods Sold | 7.33 | 12.18 | 12.18 | 5.96 | | | 0.10 | 0.10 | 0.10 | 0.10 | | 8.72 | 46.77 |
| GROSS PROFIT | 17.97 | 29.92 | 29.92 | 15.14 | 0.00 | 0.00 | 1.50 | 1.60 | 1.60 | 1.60 | 0.00 | 22.78 | 122.03 |
| Operating Expenses: | | | | | | | | | | | | | |
| Salaries & Benefits | 2.50 | 2.70 | 2.70 | 2.40 | | | 0.27 | 0.27 | 0.28 | 0.28 | 0.50 | 2.40 | 14.30 |
| Owner's Salaries | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 | 3.00 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 | 33.80 |
| Marketing | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 2.88 |
| Office Supplies | 0.30 | 0.15 | 0.15 | 0.20 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.50 | 0.10 | 1.70 |
| Insurance | 0.25 | 0.26 | 0.26 | 0.26 | 0.25 | 0.26 | 0.26 | 0.26 | 0.26 | 0.26 | 0.26 | 0.26 | 3.10 |
| Bank Charges | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 1.20 |
| Depreciation | 2.45 | 2.45 | 2.45 | 2.45 | 2.45 | 2.45 | 2.45 | 2.45 | 2.45 | 2.45 | 2.47 | 2.53 | 29.50 |
| Utilities | 0.20 | 0.20 | 0.20 | 0.30 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.30 | 4.00 |
| Property Taxes | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 6.60 |
| Professional Fees | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 1.20 |
| Repairs/Maintenance | 0.30 | 0.30 | 0.30 | 0.50 | 0.20 | 0.20 | 0.20 | 0.10 | 0.10 | 0.10 | 2.10 | 1.80 | 6.20 |
| Vehicles | 0.10 | 0.10 | 0.10 | 0.10 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.06 | 0.60 |
| Total Operating Expenses | 9.89 | 9.95 | 9.95 | 10.00 | 7.16 | 7.17 | 7.64 | 7.34 | 7.35 | 7.35 | 10.04 | 11.24 | 105.08 |
| OPERATING PROFIT | 8.08 | 19.97 | 19.97 | 5.14 | -7.16 | -7.17 | -6.14 | -5.74 | -5.75 | -5.75 | -10.04 | 11.54 | 16.95 |
| Interest Income | 0.62 | 0.63 | 0.77 | 0.87 | 0.90 | 0.85 | 0.83 | 0.75 | 0.70 | 0.63 | 0.50 | 0.20 | 8.25 |
| Interest Expense | 3.65 | 3.57 | 3.56 | 3.53 | 3.52 | 3.50 | 3.48 | 3.46 | 3.45 | 3.43 | 3.41 | 3.39 | 41.95 |
| PRE-TAX PROFIT | 5.05 | 17.03 | 17.18 | 2.48 | -9.78 | -9.82 | -8.79 | -8.45 | -8.50 | -8.55 | -12.95 | 8.35 | -16.75 |
| Income Taxes | | | | | | | | | | | | | |
| NET PROFIT (LOSS) | **5.05** | **17.03** | **17.18** | **2.48** | **-9.78** | **-9.82** | **-8.79** | **-8.45** | **-8.50** | **-8.55** | **-12.95** | **8.35** | **-16.75** |

## MONTHLY CASH FLOW STATEMENT
## ('000 omitted)
## June 1, 19x1 to May 31, 19x2

| Month | J | J | A | S | O | N | D | J | F | M | A | M | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OPENING CASH BALANCE | 77.37 | 82.60 | 101.67 | 120.89 | 126.49 | 117.08 | 119.04 | 101.32 | 94.65 | 87.93 | 71.16 | 41.31 | |
| Cash Receipts: | | | | | | | | | | | | | |
| Site Rental | 18.30 | 26.40 | 26.40 | 17.80 | | | 1.50 | 1.60 | 1.60 | 1.60 | | 25.10 | **120.30** |
| Store/Laundry | 4.50 | 6.60 | 6.60 | 1.30 | | | | | | | | 6.20 | **25.20** |
| Bicycle/Boat | 2.10 | 8.70 | 8.70 | 1.90 | | | | | | | | | **21.40** |
| Lodge Rental | 0.40 | 0.40 | 0.40 | 0.10 | | | 0.10 | 0.10 | 0.10 | 0.10 | | 0.20 | **1.90** |
| Interest Revenue | 0.62 | 0.63 | 0.77 | 0.87 | 0.90 | 0.85 | 0.83 | 0.75 | 0.70 | 0.63 | 0.50 | 0.20 | **8.25** |
| TOTAL CASH RECEIPTS (B) | 25.92 | 42.73 | 42.87 | 21.97 | 0.90 | 0.85 | 2.43 | 2.45 | 2.40 | 2.33 | 0.50 | 31.70 | **177.05** |
| Cash Disbursements: | | | | | | | | | | | | | |
| Salaries/Benefits | 2.50 | 2.70 | 2.70 | 2.40 | | | 0.27 | 0.27 | 0.28 | 0.28 | 0.50 | 2.40 | **14.30** |
| Owner's Salaries | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 | 3.00 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 | **33.80** |
| Marketing | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 | **2.88** |
| Office supplies | 0.30 | 0.15 | 0.15 | 0.20 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.10 | **1.70** |
| Insurance | | | | | | | | | | | | 3.10 | **3.10** |
| Bank Charges | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | **1.20** |
| Utilities | 0.20 | 0.20 | 0.20 | 0.30 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.30 | **4.00** |
| Property Taxes | | | | | | | | | | | | 6.60 | **6.60** |
| Professional Fees | | | | | 1.20 | | | | | | | | **1.20** |
| Repair/Maintenance | 0.60 | 0.30 | 0.30 | 0.50 | 0.20 | | 0.30 | | | | 2.20 | 1.80 | **6.20** |
| Land Improvements | | | | | | | | | | 10.00 | 11.20 | 11.60 | **32.80** |
| Vehicle | | | | 0.20 | | | | | | | | 0.40 | **0.60** |
| Inventory/Supplies | 8.50 | 11.80 | 11.80 | 4.30 | | | 0.51 | | | | 7.20 | 6.86 | **50.97** |
| Loan Interest | 3.65 | 3.57 | 3.56 | 3.53 | 3.52 | 3.50 | 3.48 | 3.46 | 3.45 | 3.43 | 3.41 | 3.39 | **41.95** |
| Loan Principal | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | **21.60** |
| TOTAL CASH DISBURSEMENT | 20.69 | 23.66 | 23.65 | 16.37 | 10.31 | 8.89 | 10.15 | 9.12 | 9.12 | 19.10 | 30.35 | 41.49 | **222.90** |
| ENDING CASH (A+B-C) | **82.60** | **101.67** | **120.89** | **126.49** | **117.08** | **109.04** | **101.32** | **94.65** | **87.93** | **71.16** | **41.31** | **31.52** | **31.52** |

# PROFORMA BALANCE SHEET
## May 31, 19x2

| | |
|---|---|
| **Current Assets:** | |
| Cash | $11,520 |
| Marketable Securities | $20,000 |
| Inventory | $8,400 |
| Prepaid Expenses | $3,100 |
| **Total Current Assets** | $43,020 |
| **Fixed Assets:** | |
| Land | $78,000 |
| Land Improvements | $214,762 |
| Utility Servicing | $58,481 |
| Building | $171,356 |
| Marina | $37,159 |
| Equipment | $34,820 |
| Vehicles | $26,200 |
| Furniture & Fixtures | $5,100 |
| Contingency | $77,658 |
| **Total Fixed Assets** | $703,536 |
| Less Depreciation | ($34,397) |
| **Net Fixed Assets** | $669,139 |
| **TOTAL ASSETS** | **$712,159** |

| | |
|---|---|
| **Current Liabilities:** | |
| Accounts Payable | $2,623 |
| Current Portion Vehicle/Equipment Loan | $8,600 |
| Current Portion Term Loan | $13,000 |
| **Total Current Liabilities** | $24,223 |
| **Long Term Liabilities:** | |
| Vehicle/Equipment Loan | $24,367 |
| Term Loan | $299,000 |
| **Total Long Term Liabilities** | $323,367 |
| **Owner's Equity:** | |
| Shareholders Loans | $434,900 |
| Share Capital | $100 |
| Retained Earnings | ($70,431) |
| **Total Owner's Equity** | $364,569 |
| **TOTAL LIABILITIES & OWNER'S EQUITY** | **$712,159** |

Projections should now be completed for the next two to three years of operation. Your completed set of projections should contain

1) Summary of Construction/Start Up Costs and Sources of Funding
2) Monthly Income Statement - Construction/Start Up Phase
3) Monthly Cash Flow Statement - Construction/Start Up Phase
4) Proforma Opening Balance Sheet
5) Monthly Income Statements for the first three years of operation
6) Monthly Cash Flow Statements for the first three years of operation
7) Balance Sheets for the first three years of operation

Three different scenarios should be developed based on three separate sets of assumptions. These are normally titled ***worst***, ***average*** and ***best case scenario***. The underlying assumptions used in developing projections together with the sources of information employed must be outlined for the reader.

## 6.2 Analyze Financial Projections

Once your financial statements have been projected, they need to be analyzed and interpreted. The tools of financial statement analysis are used to develop an understanding of the "numbers" and to form the basis for informed decision making. ***Ratio analysis, common size analysis and break-even analysis*** are three of the tools employed in financial statement analysis.

### Ratio Analysis

Ratios are used to compare one company's actual or projected performance to that of other companies of the same size in the same industry. They are also used to compare trends over time for a particular company. There are four categories of ratios. A few examples of the types of ratios that can be employed are outlined below. ***It is important to remember that ratios in and of themselves are of limited usefulness.*** Ratios must be relevant to your specific business and must be compared to performance in other time periods and to appropriate industry standards to be useful financial tools.

1. *Profitability Ratios*
   - Return on assets (ROA) relates after-tax earnings to the company's total asset base.

$$ROA = \frac{\text{Earnings After-Tax}}{\text{Total Assets}}$$

   - Return on equity (ROE) relates after-tax earnings to the owner's equity.

$$ROE = \frac{\text{Earnings After-Tax}}{\text{Total Equity}}$$

2. *Liquidity Ratios*

   - Current Ratio measures the relationship between current assets and current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

   - Quick Ratio measures the relationship between assets which can be quickly turned into cash and current liabilities.

$$\text{Quick Ratio} = \frac{\text{Cash + Marketable Securities + Accounts Receivable}}{\text{Current Liabilities}}$$

3. *Operating Efficiency Ratio*

   - Sales to Inventory compares sales to inventory levels.

$$\text{Sales to Inventory} = \frac{\text{Net Sales}}{\text{Inventory}}$$

4. *Leverage Ratios*

   - Leverage refers to the extent to which the firm employs debt capital to finance its operations. The higher the debt level, the more highly leveraged the company is.

$$\text{Debt to Equity} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

**Common Size Analysis**

Common size financial statements express all accounts on the balance sheet and income statement as a percentage of some key figure. Net sales are set at 100% on the income statement and all other items are expressed as a percentage of net sales. On the balance sheet, total assets are set at 100% on the left hand side while total liabilities and equities are set equal to 100% on the right hand side.

All asset accounts are listed as a percentage of total assets, and all liability and equity accounts as a percentage of total liabilities plus owner's equity.

The common size income statement shows the proportion of the sales or revenue dollar being absorbed by the various cost and expense items. The common size balance sheet focuses on the internal structure and allocation of the firm's financial resources. The choice of distribution between current and fixed assets and between long and short term debt are outlined in the common size balance sheet. Again, the relationships portrayed by common size statements is meaningful only when compared to trends or to industry standards.

**Break-Even Analysis**

Break-even analysis investigates the relationships among sales, fixed costs and variable costs. A firm's break-even point occurs when total revenues are exactly equal to the total of fixed and variable costs. Above this point a profit is generated, and below this point a loss is incurred.

Fixed costs are those costs which occur regardless of the level of sales generated. Rent, depreciation, interest expenses and property taxes are examples of fixed costs. Variable costs are those expenses which vary depending on the level of sales. Costs of goods sold are variable expenses. Many other expenses such as utilities and salaries have both a fixed and a variable component.

The first step in calculating the break-even point is to determine the total fixed and total variable costs. Next we solve for the following:

Break-Even Revenue = Fixed Costs + Variable Costs

Alberta Economic Development and Trade's booklet entitled "Financing a Small Business" provides additional material on break-even calculations and other methods for analyzing financial projections.

## 6.3 Complete A Financial Plan

The goals and objectives established for the company in **Action Step #2**, the organizational form and human resource plan established in **Action Step #3**, the project schedule developed in **Action Step #4**, and the marketing plan developed in **Action Step #5** must be taken into consideration when developing your financial plan. Your financial plan and objectives, projections, action plans, contingency plans, and procedures for monitoring and evaluating performance must flow logically from, and be consistent with, the analyses prepared in previous sections. Only then will you be in a position to determine the feasibility and viability of your proposed tourism business.

To develop a financial plan, follow these steps:

1) Establish your financial goals and objectives.
2) Develop financial projections for the construction/start up phase of your business.
3) Develop financial projections for the operating stage.
4) Analyze financial statements.
5) Develop a plan of action to accomplish these goals and objectives.
6) Establish procedures for controlling, monitoring and evaluating results.

Answer the following questions prior to finalizing your Financial Plan:

a) What are your financial goals and objectives? Are these consistent with those developed in **Action Step #2**? If not, what changes need to be made to achieve consistency?

b) Who will be responsible for controlling, monitoring and evaluating financial operations?

c) What are the strengths and weaknesses of your financial plan?

d) What aspects of your proposed business need to be changed as a result of the development of your financial plan?

After completing your Financial Plan, do you still feel that your proposal is feasible? If so, proceed to **Action Step #7: Assess the Project's Viability**.

ASSESS THE
PROJECT'S
VIABILITY

# Action Step #7: Assess The Project's Viability

Up until this point, the focus has been on determining the feasibility of your proposed tourism project. As stated in the Introduction to the *Guide*, to be viable the project must also demonstrate independence; it must survive and be self sufficient. Viability is determined by comparing the results of each Action Step to each other and, most importantly, to the goals and objectives outlined in **Action Step #2**.

The following questions are designed to assist you in making this viability assessment:

a) Did the initial market research reveal sufficient demand for your product experience?

b) Will your marketing plan successfully capture this demand? Are projected sales levels sufficient to cover projected expenses? Can your business generate profits and positive cash flows over the long term?

c) Are the projected profits, cash flow and demands on your own time and resources compatible with your personal and business goals? Is sufficient funding in place?

d) Does management have the necessary expertise to successfully operate this business? If not, have you obtained commitments from outside professionals to supplement management's skills? Are experienced, trainable staff readily available for non-management positions?

**Is your project viable, or should you pursue another option, goal or business endeavour?**

ACTION STEP #3

# Outline Critical Risks And Assumptions

# Action Step #8: Outline Critical Risks and Assumptions

Throughout the *Guide* you have been requested to outline the assumptions underlying your projections together with the rationale for using these assumptions. The rationale is often simply reliance on reputable sources such as published third party studies by consultants, Statistics Canada, Alberta Tourism or other reliable organizations. The underlying assumptions used in your business plan should be summarized for the reader in a separate section.

Risk is the probability of the occurrence of unfavourable outcomes. The major risks facing your proposed business operation should also be summarized in a separate section. Outline the critical risks, identify whether they are internal risks (loss of a key employee) or external risks (competitor's actions), estimate the probability of their occurrence, and describe what contingency plans you will adopt to mitigate the negative impact of these risks.

ACTION STEP #9

# Write An Executive Summary

# Action Step #9: Write An Executive Summary

An Executive Summary is an integral part of any business plan. Potential investors or lenders often use the Executive Summary as an initial screening tool when evaluating a project. A well written, concise Executive Summary, highlighting all the salient points contained in the business plan, can serve as a valuable marketing tool when approaching lenders or investors.

The Executive Summary should be completed as the last step in the process and appear at the front of the business plan. The content of the summary should be presented in the same order as in the business plan itself. Keep the Executive Summary short – at the most, three pages in length.

ACTION STEP #10

# Edit And Organize The Business Plan

# Action Step #10: Edit and Organize The Business Plan

Your business plan should be organized as follows:

1. Title Page
2. Table of Contents
3. Executive Summary
4. The Company
   a) Goals and Objectives
   b) Products and Services
   c) Organizational Form and Human Resource Plan
5. Industry and Market Analysis
6. Project Schedule
7. Marketing Plan
8. Financial Plan
9. Critical Risks and Assumptions
10. Appendices

Review the results of each action step and correct any inconsistencies among the plans. Write the first draft of your business plan keeping in mind the editing and presentation tips contained in the Introduction to the *Guide*. A second, third or even fourth revision may be necessary to produce a satisfactory business plan.

# Appendix: Sources of Information

## I. Government Agencies

**Alberta Bureau of Statistics**
Suite 600, Park Plaza
10611 - 98 Avenue
Edmonton, Alberta T5K 2R7
Telephone: 427-3058

**Alberta Economic Development & Trade**
Small Business & Industry Division
6th Floor, Sterling Place
9940 - 106 Street
Edmonton, Alberta T4K 2P6
Telephone: 427-3685

**Alberta Tourism**
Business Development Branch
Edmonton Regional Office
3rd Floor, CityCentre
10155 - 102 Street
Edmonton, Alberta T5J 4L6
Telephone: 422-1362

Business Development Branch
Calgary Regional Office
750, 999 - 8th Street SW
Calgary, Alberta T2R 1J5
Telephone: 297-5040

Library
5th Floor, CityCentre
10155 - 102 Street
Edmonton, Alberta T5J 4L6
Telephone: 427-3299

**Industry Science & Technology Canada**
Room 540 Canada Place
9700 Jasper Avenue
Edmonton, Alberta T5J 4C3
Telephone: 495-4782

**Industry Science & Technology Canada**
Tourism Development Officer in Calgary
(Tourism Canada)
#1100, 510 - 5th Street SW
Calgary, Alberta T2P 3S2
Telephone: 292-4575

**Industry Science & Technology Canada**
Tourism Research Data Centre
4th Floor East, 235 Queen Street
Ottawa, Ontario K1A 0H5
Telephone: (613) 954-3986

**Statistics Canada**
8th Floor, Park Square
10001 Bellamy Hill
Edmonton, Alberta T5J 3B6
Telephone: (Local) 495-3027
Toll Free: 1-800-282-3907

Room 401, First Street Plaza
138 - 4th Avenue SE
Calgary, Alberta T2G 4Z6
Telephone: (Local) 292-6717
Toll Free: 1-800-472-9708

**Tourism Canada**
235 Queen Street
Ottawa, Ontario K1A 0H5
Telephone: (613) 954-3986

## II. Tourism Industry Associations

**The Alberta Hotel Association**
401, Centre 104
5241 Calgary Trail South
Edmonton, Alberta T6H 5G8
Telephone: 436-6112

**Canada Tourism Research Institute**
255 Smyth Road
Ottawa, Ontario K1H 8M7
Telephone: (613) 526-3280

**Tourism Industry Association of Alberta (TIAALTA) Head Office**
#250, 2635 - 37 Avenue NE
Calgary, Alberta T1Y 5V7
Telephone: 250-2760

**Chinook Country Tourist Association**
2805 Scenic Drive
Lethbridge, Alberta T1K 5B7
Telephone: 329-6777

**South-East Travel & Convention Association**
P.O. Box 605
8 Gehring Road
Medicine Hat, Alberta T1A 7G5
Telephone: 527-6422

**Big Country Tourist Association**
P.O. Box 2308
#28, 170 Centre Street
Drumheller, Alberta T0J 0Y0
Telephone: 823-5885

**David Thompson Country Tourist Council**
4836 Ross Street
Red Deer, Alberta T4N 5E8
Telephone: 342-2032

**Battle River Tourist Association**
Box 1515
6036 - 48 Avenue
Camrose, Alberta T4V 1X4
Telephone: 672-8555

**Lakeland Tourist Association**
Box 874
5101 - 50 Street
St. Paul, Alberta T0A 3A0
Telephone: 645-2913

**Evergreen Country Tourist Council**
Box 6007
5035 - 1st Avenue
Edson, Alberta T7E 1T6
Telephone: 723-4711

Box 5134
308 Gregg Avenue
Hinton, Alberta T7V 1X3
Telephone: 865-4515

**Land of the Mighty Peace Tourist Association**
Box 6627
9309 - 100 Street
Peace River, Alberta T8S 1S4
Telephone: 624-4042

**Jasper Park Chamber of Commerce**
Box 98
632 Connaught Drive
Jasper, Alberta T0E 1E0
Telephone: 852-3858

**Calgary Convention & Visitors Bureau**
237 - 8 Avenue SE
Calgary, Alberta T2G 0K8
Telephone: 263-8510

**Edmonton Convention & Tourism Authority**
#104, 9797 Jasper Avenue
Edmonton, Alberta T5J 1N9
Telephone: 426-4715

**Banff/Lake Louise Chamber of Commerce**
Box 1298
335 Beaver Street
Banff, Alberta T0L 0C0
Telephone: 762-3777

**Game Country Tourism Association**
9928 - 111 Avenue
Grande Prairie, Alberta T8V 4C3
Telephone: 539-4300

**Midnight Twilight Tourist Association**
#1 Sturgeon Road
St. Albert, Alberta T8N 0E8
Telephone: 458-5600